

Message Text

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72

ACTION EUR-25

INFO OCT-01 ISO-00 ACDA-19 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 PM-07 H-03 L-03

NSC-07 PA-04 PRS-01 SS-20 USIA-15 STR-08 CEA-02 DRC-01

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R 281330Z JUN 74

FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC 4611

INFO SECDEF WASHDC

CINCLANT

COMICEDEFOR

USMISSION NATO

AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L REYKJAVIK 0878

EO 11652: GDS

TAGS: PFOR MARR IC NATO

SUBJECT: QUARTERLY TRENDS REPORT: ICELAND

REF: (A) REYKJAVIK 0844; (B) REYKJAVIK 0873

1. THE LAST DAY OF THIS QUARTER IS SIGNIFICANT FOR U.S.-
ICELANDIC RELATIONS. THE NATIONAL ELECTION JUNE 30 IS
FOR ALL INTENT AND PURPOSES A NATIONAL REFERENDUM AS TO
WHETHER THE US MANNED NATO NAVAL BASE AT KEFLAVIK WILL
BE RETAINED, AND IF SO, UNDER WHAT ARRANGEMENTS. FORE-
CASTERS PREDICT A LEFT/RIGHT STALEMATE, WITH BOTH THE
CONSERVATIVE INDEPENDENCE PARTY AND THE COMMUNISTS GAIN-
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ING AT THE EXPENSE OF ALL OTHER PARTIES. REFTel (A)

OFFERS THIS EMBASSYS ANALYSIS OF POSSIBLE PARTY COALITION ARRANGEMENTS AND THEIR MEANING FOR THE DEFENSE ISSUE. BRIEFLY STATED, THE INDEPENDENCE PARTY MUST BE IN THE NEW GOVT FOR A DEFENSE POLICY FAVORABLE TO US INTERESTS.

2. ALTHOUGH THE ECONOMIC MESS WAS THE CAUSE FOR NEW ELECTIONS TO BE CALLED, ALL THE PARTIES CHOSE TO CONCENTRATE ON THE DEFENSE ISSUE. THE ECONOMIC ISSUE WILL HAVE TO BE FACED, HOWEVER, AND SOON. REFTEL (B) CONTAINS THIS EMBASSYS VIEWS. INFLATION IS NOW AT AN ANNUAL RATE OF 45 PERCENT; FOREIGN EXCHANGE RESERVES ARE DOWN TO THE EQUIVALENT OF ONE MONTHS IMPORTS; AND THE GOVT IS OPERATING AT A HUGE BUDGETARY DEFICIT. ICELANDERS FORESEE A MAJOR DEVALUATION COMING AND CONSEQUENTLY ARE BUYING WHATEVER APPLIANCES, ETC, THEY CAN OBTAIN. STOCKS OF MERCHANTS ARE BEING RAPIDLY DEPLETED. TO THE VISITOR IN ICELAND THE COUNTRY LOOKS PROSPEROUS, BUT AMERICAN TOURISTS ARE COMPLAINING TO HOTELS AND THIS EMBASSY OVER THE HIGH PRICES.

3. ALL OTHER ACTIVITIES IN ICELAND DURING THE QUARTER HAVE BEEN SECONDARY TO THE DEFENSE AND ECONOMIC ISSUES AND DO NOT WARRANT INCLUSION IN THIS REPORT.

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